

The effectiveness of active labor market programs

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Luncheon Address



active labour market policies



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Alle Typen

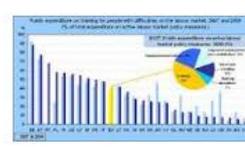
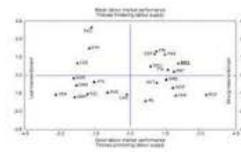
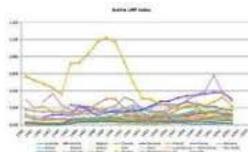
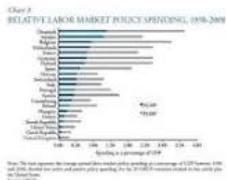
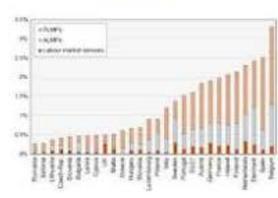
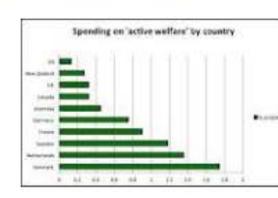
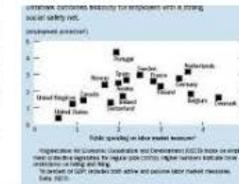
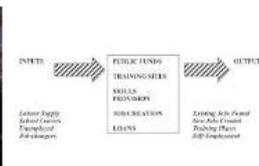


Table showing labor market policy spending by country. The table lists countries and their corresponding spending values.



Policy transfer and institutional arrangements for the diffusion of active labor market policies across Europe



Starting point

- **Unemployment** one of the most challenging economic / social problems in developed and developing countries → Policymakers struggle to find effective programs that help jobless find jobs and increase workers' productivity and labor income
- **Job training** and other **active labor market programs (ALMPs)** have been promoted as a remedy for cyclical and structural unemployment

Starting point

Early **U.S.** experience: MDTA (1960s), CETA (1970s), JTPA (1980s-1990s)

European experience:

- Scandinavia 1970s forward, in particular Sweden
- Germany 1990s forward
- Denmark "flexicurity", UK "New Deal", etc
- EU: "European Employment Strategy"
- ALMP spending -> Graph

Latin America: Job training, increasing since the mid-1980s

Types of active programs

- i. (Labor market) training
- ii. Private sector incentive programs
- iii. Public sector employment
- iv. Job Search Assistance / “Services and sanctions”

Specific target groups: Youths, disabled

This talk

→ The knowledge on ALMP effectiveness

i) How do we know?

— Evaluations of particular programs

— Systematizing the evidence → Meta-analysis from (mostly) OECD countries

ii) What do we know?

— Results for the OECD

— Developing countries / emerging markets?

i) **How** do we know?

Effectiveness of individual programs

- From the beginning, the effectiveness of training programs has been controversial
- Mid-1970s: earliest "serious" evaluations in the U.S. (→ Orley Ashenfelter 1976, 1978)
- identified the "selection problem" in evaluating ALMPs: participant selection driven by combination of self-selection, program rules, and incentives of program operators
- how would trainees perform in the absence of training?
(→ counterfactual)

Effectiveness of individual programs

- Methodological discussion → Need for experimental evidence (RCTs) vs. non-experimental methods: Matching, duration
 - Increasing availability and quality of data (interest and commitment by policy makers)
 - Status Quo: **large body of evidence** → many ALMP evaluations, some experiments in US and LAC, mostly non-experimental in Europe
- How / what can we learn from the many individual program evaluations **overall?**

Systematizing the evidence

Collect evaluations of ALMPs across countries

Narrative review: Martin (2000), Martin and Grubb (2001),
 OECD Employment Outlook

Quantitative assessment →

Meta-analysis : Europe: Kluve (2010),
 New sample worldwide: Card et al. (2010),
 U.S.: Greenberg et al. (2003), Bloom et al. (2003)
 World Bank ALMP: Betcherman et al. (2004),
 World Bank: Youth Employment Inventory (2007)
 (Heckman et al. 1999, Kluve and Schmidt 2002)

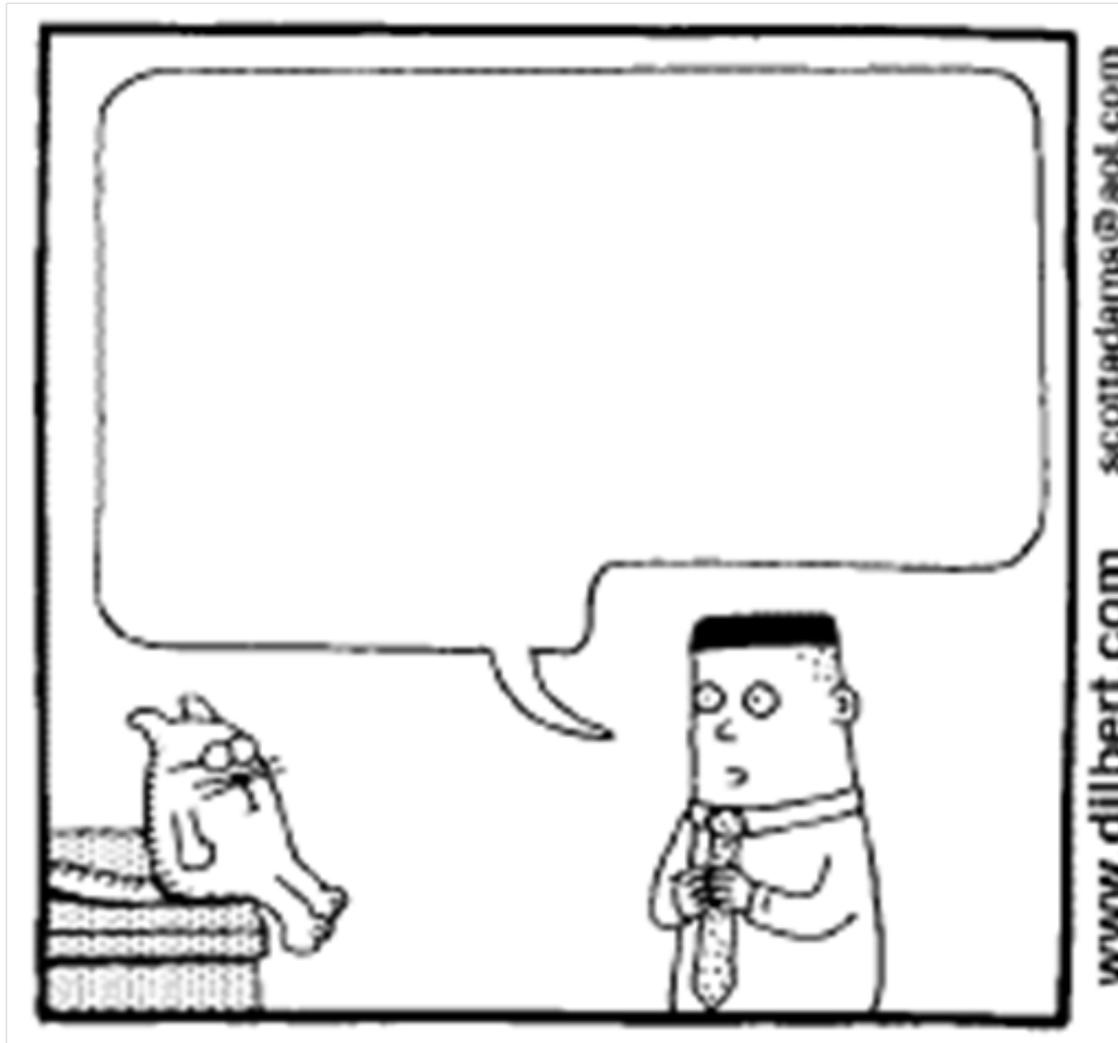
Systematizing the evidence

- **Meta-analysis** = Statistical tool to synthesize research findings across a sample of individual studies that all analyze the same or a similar question, in the same or a comparable way.
- Complements evidence from individual program evaluations.
- Origin in health care sciences -> The Cochrane Collaboration -> typically aggregating identical RCTs
- Social sciences -> The Campbell Collaboration -> aggregate evidence and investigate role of contextual factors
- On other topics in (labor) economics: Minimum wages (Card and Krueger 1995), Returns to education (Ashenfelter et al. 2000)

Sample of ALMP evaluations

- Joint work with David Card (UC Berkeley) and Andrea Weber (University of Mannheim) → Survey among IZA and NBER researchers
- Focus on microeconomic evaluations of programs post-1995
- Extract information on: program type, duration, methods, target group
- Trinomial outcome: significantly positive, significantly negative, insignificant
- short-term (≤ 12 months post-treatment) and medium-term (≤ 24 months)
- $N=187$ and $N=98$, respectively

The perils of data extraction



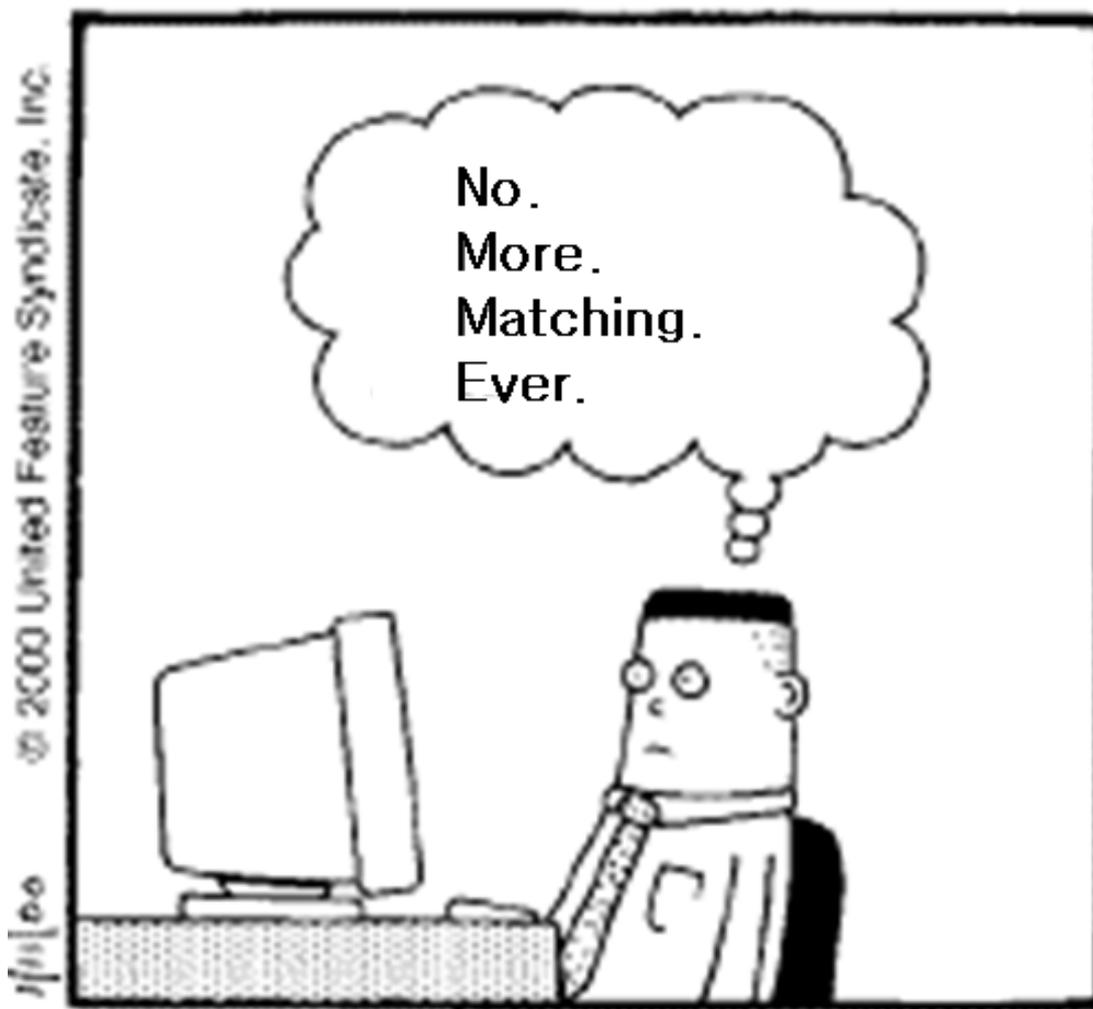
The perils of data extraction



The perils of data extraction



The perils of data extraction



The perils of data extraction

Dave, you know how hard it was for me to read all the German studies. Now I realized I forgot to do Switzerland, but it's full of Matching papers. I am close to a nervous breakdown. Could perhaps you or Andrea do it?

www.dilbert.com scottadams@aol.com

Well, Jochen, you know I did Sweden and that was pretty bad. Andrea still hasn't recovered from the Danish studies. I'm sorry, but the Swiss are up to you.

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No.
More.
Matching.
Ever.

Meta-analysis

Correlate effectiveness with:

- Program characteristics
- Sample characteristics
- Methodology
- Labor market institutions
- Macroeconomic environment

Table 1. Summary statistics

	Mean / Fraction	SD	Min	Max
Cycle indicators				
GDP growth	2.68	1.39	-1.63	5.67
Unemployment rate	7.42	2.82	2.06	14.9
Labor market institutions				
ALMP spending	1.10	0.60	0.18	3
EPL index	2.13	0.86	0.2	3.7
Replacement rate	32.43	13.68	5.9	63.7
Program indicators				
Training	0.40			
Job Search Assistance	0.12			
Private sector employment	0.15			
Youth program	0.14			
Short program	0.21			
Long program	0.18			
Main countries				
Denmark	0.13			
Germany	0.23			
Austria	0.07			
France	0.07			
Sweden	0.10			
N=187				

ii) What do we know?

Meta-analysis: results

	(1) Negative treatment estimate		(2) Positive treatment estimate	
	Marginal effect	<i>t</i>	Marginal effect	<i>t</i>
(a) Type of program and target group (omitted: training; adults/disabled)				
Direct employment program	0.155	1.92	-0.216	-2.13
Private sector incentive scheme	-0.144	-3.52	0.280	2.91
Services and Sanctions	-0.205	-3.87	0.436	4.63
Young workers	0.140	1.79	-0.202	-1.94
(b) Research design and timing (omitted: OLS/selection/others; studies from the 1970s and 1980s)				
Experiment	0.314	1.32	-0.356	-1.87
Matching	0.061	0.88	-0.095	-0.94
Duration	0.041	0.50	-0.064	-0.52
Study from the 1990s	0.115	1.45	-0.192	-1.50
Study from the 2000s	0.190	1.30	-0.248	-1.61
(c) Institutional context on the labor market				
Index for dismissal protection regulation	0.067	1.77	-0.109	-1.76
Index for fixed-term contracts regulation	-0.023	-0.80	0.037	0.80
Index for temporary work regulation	0.001	0.03	-0.001	-0.03
Gross replacement rate	0.004	1.40	-0.006	-1.41
(d) Macroeconomic environment				
Unemployment rate	-0.022	-2.13	0.035	1.95
ALMP expenditure (% of GDP)	0.060	1.12	-0.097	-1.13
GDP growth	0.009	0.35	-0.015	-0.35

Meta-analysis: results

(a) Program type	
Training	(+)
Direct employment program	-
Private sector incentive scheme	+
Services and sanctions	+
Youth program	-
(b) Research design and timing	
Experiment	-
Study from the 1990s or 2000s	(-)
(c) Institutional context on the labor market	
Dismissal protection regulation	(-)
Fixed-term contracts regulation	0
Temporary-work regulation	0
Gross replacement rate	0
(d) Macroeconomic environment	
Unemployment rate	(+)
ALMP expenditure	0
GDP growth	0

Main results (i)

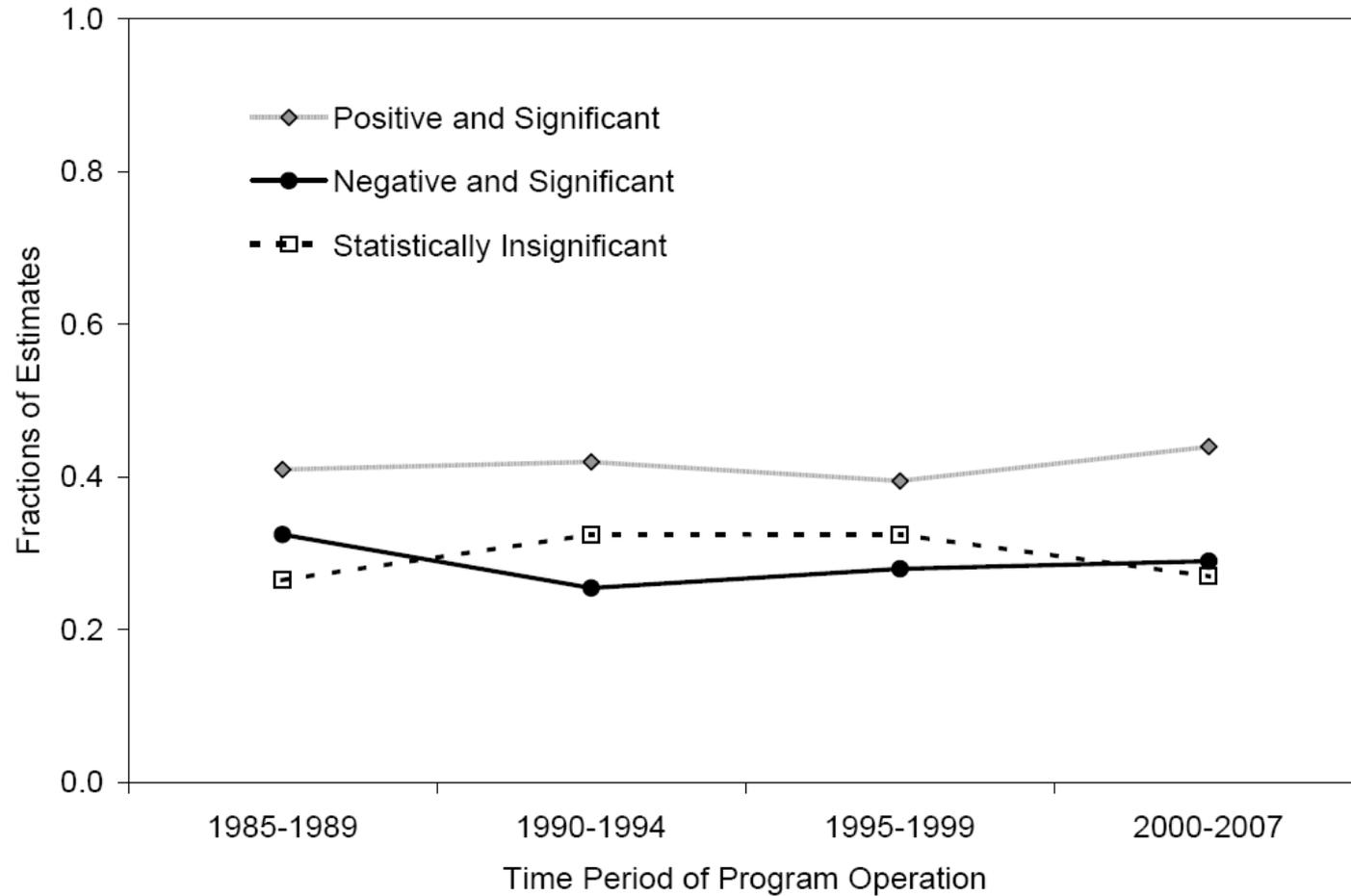
Program type:

- Training on average modestly effective
- Private sector incentive schemes typically effective -> but: general equilibrium effects?
- Public sector employment programs are not effective and often decrease participants' job finding chances
- Job Search Assistance programs frequently show positive effects

Impacts tend to increase with time after the program

	Percent of Medium-term Estimates that are:		
	Significantly Positive (1)	Insignificant (2)	Significantly Negative (3)
<u>Short-term Impact Estimate:</u>			
a. Significantly Positive (N=30)	90.0	10.0	0.0
b. Insignificant (N=28)	28.6	71.4	0.0
c. Significantly Negative (N=36)	30.6	41.7	27.8

ALMP effectiveness over time



Results (ii)

- Little systematic correlation of ALMP impact estimates with cycle indicators
- Labor market institutions seem to play no role (exception: EPL)
- More pronounced program type pattern identified in recent research:
 - > Job Search Assistance in the short run;
 - > Training programs in the long run
- Youth programs systematically less effective in OECD
- Comprehensive, well-targeted programs work

**iiia) So, what about ALMP effectiveness
in the developing world?**

First, to what extent are OECD results relevant?

- Partially, no: Country contexts and target populations can be very different: informality, low labor demand, disadvantaged low-skilled vs. long-term unemployed
- Partially, yes: Strong systematic patterns by program type provide important information -> JSA, training
- Long-run implications of human capital formation
- Comprehensiveness of programs
- Moreover: importance of results-based monitoring and evaluation

A bit more detail:

- Systematic knowledge across regions is limited (-> Betcherman et al. 2004)
- Quite a few programs and evaluations in Latin America and the Caribbean
-> e.g. Ibarrarán and Rosas (2009)
- Large majority evaluates youth training programs -> “Jóvenes”
- Main finding: these programs are effective on average -> employment, job quality

Youth training programs in LAC

Country	Increase in employment	Increase in earnings	Cost-benefit analysis
Argentina: Proyecto Joven	10% (women)	10% (monthly wages)	NPV > 0 if 12 years of positive benefits (DR = 5%)
Chile: Chile Joven	21% (individuals younger than 21 years old, women)	26%	—
Colombia: Jóvenes en Acción	5% (women)	18% (men), 35% (women)	IRR = 4.5% (men), 13.5% (women)
Dominican Republic: Juventud y Empleo	Not significant	10%	NPV > 0 if 2 years of positive benefits (DR = inflation)
Peru: ProJoven	6%	18% (hourly)	NPV > 0 if 7 years of positive benefits (DR = 5%) IRR > 4%
Panama: ProCaJoven	10–12% (women and Panama City residents)	Not significant	NPV > 0 if 1 year of positive benefits (IR = DR)

Features of the “Jóvenes” programs

- Financing of training separated from the provision: training courses are selected through a public bidding system
- Type of training is demand driven
- The intervention follows a “multi-service” approach: classroom training + internship / work experience + job search assistance + life skills

The role of life skills?

- Increasingly receiving attention
- Examples: Through Sports -> “A ganar” / “A vencer”
- Through theatre









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More on ALMP in the developing world

- Large number of programs, and evaluations (RCTs)
 - Often initiated by institutions such as the World Bank, IDB, etc.
 - Systematic relation to country programs / public policy?
 - Scale-up of pilots?
-
- An enormous learning potential lies in the programs that are being implemented and evaluated worldwide

Thank you.

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